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C O N F I D E N T I A L SECTION 01 OF 02 KYIV 000576

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SUBJECT: RADA/YUSHCHENKO FALTER ON LEGISLATION REQUIRED BY  
IMF

REF: KYIV 518

Classified By: A/DCM Edward Kaska for reasons 1.4(b,d)

Summary

1. (C) On March 31, the Rada failed to include on its agenda three anti-crisis measures deemed essential by the IMF. Although PM Tymoshenko delivered unanimous support for the bills from her bloc, President Yushchenko's allies in the Rada did not support inclusion of the measures on the agenda. The Rada passed two other required anti-crisis measures with support from both BYuT and the pro-coalition and pro-presidential wings of Our Ukraine-People's Self-Defense (OU-PSD). Failure to pass the five measures, a minimal package of pared-down IMF requirements, further postpones the IMF team's return to Kyiv. Tymoshenko pledged to work with the President and Rada to obtain passage of the three remaining measures as early as April 1. End Summary.

Rada Fails to Meet IMF Pared-Down Expectations

2. (SBU) On March 31, the Rada passed two of five bills in a package of anti-crisis legislation submitted by PM Tymoshenko's government. The bills were considered the bare minimum needed to get the IMF back to Ukraine for further negotiations on the second tranche of the Stand-By Arrangement. The IMF had pared down its expectations of the GOU, essentially endorsing what amounted to a check list of fiscal measures to be taken by the Rada as a precondition for bringing the Fund's mission team back to Ukraine.

3. (C) On March 24, IMF resident representative Max Alier suggested to G7 ambassadors that it would consider "satisfactory" PM Tymoshenko's promise to deliver two excise bills (one on tobacco and the other on alcohol, cars, and gasoline), a modest pension reform plan, revisions to the 2009 budget to offset state-owned gas company Naftohaz's payments, and public procurement reforms. Tymoshenko told the IMF that all needed anti-crisis legislation would pass on March 31. Yushchenko also had guaranteed the bills' passage by March 31, even telling an audience in Prague on March 25 that the IMF would return the week of March 30 after the requisite legislation was in place (Ref A).

4. (SBU) However, two bills related to pension reform and a bill on Naftohaz payments failed to garner enough votes to be put on the agenda for consideration. Because the bills themselves were not yet considered and voted on in the Rada, they can be reintroduced to the Rada agenda at a later date. The pension reform bills received 206 and 210 votes respectively, and the Naftohaz budget legislation received 209 votes. 226 votes are required to put an item on the agenda.

5. (SBU) By approving only the excise taxes on tobacco and alcohol, the Rada has not met IMF requirements for the

anti-crisis legislation package. While we were unable to reach the IMF for their immediate reaction, the World Bank's Kyiv-based senior economist Ruslan Piontkivsky told us on March 31 that the Rada's revenue-generating legislation had been watered down from what the PM had told the IMF, since it had not included provisions for cars or gasoline. While the World Bank had not read the full text of the two excise taxes and could not comment on the amount of revenue they would raise, Piontkivsky suggested that the laws have fallen far short of meeting the 2 percent of GDP fiscal gap targets required by the IMF. Official estimates suggest that the tobacco excise tax will generate UAH 3.7 billion (\$480 million) during the final nine months of 2009, while the tax on alcoholic beverages should bring UAH 1.3 billion (\$170 million) for the balance of the year.

Yushchenko Doesn't Deliver...

¶6. (SBU) In his State of the Union Address to the Rada, Yushchenko called for political unity in the face of the ongoing economic crisis. Although he called for support of the pension reform legislation in his address, Yushchenko failed to deliver the votes of his remaining allies in OU-PSD. Neither Presidential Secretariat head Baloha's United Center (UC) MPs nor former Speaker Vyacheslav Kyrylenko's "For Ukraine" group voted to include the legislation on the agenda. (Note: We estimate that "For Ukraine" and UC make up at least 27 members of the OU-PSD faction.) Yushchenko was more critical of the Naftohaz budget legislation in his address, arguing that the "so-called balanced budget of Naftohaz" needs to be reviewed.

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¶7. (C) BYuT MP Kostyantyn Bondareev told us that Yushchenko's call to unity was "meaningless" without action from his allies in the Rada. He said that Yushchenko always talks about unity on one hand, while "bringing up treason charges" against Tymoshenko and devising plans to dissolve the Rada on the other. Pro-coalition OU-PSD MP Vladislav Kaskiv told us that a call for unity by the president "does not equal unity." Kaskiv said he did not expect "For Ukraine" or UC to support anything positive, as they preferred to focus on destroying the coalition.

...But Tymoshenko Does

¶8. (SBU) Tymoshenko's BYuT faction gave unanimous support for the three unsuccessful bills. She said that the Rada's failure on March 31 threatened the IMF program, and she announced plans to consult with the President and Rada factions to get the measures on the agenda April 1.

¶9. (C) BYuT contacts tell us that the anti-crisis package is politically difficult, as Tymoshenko tries to maintain her rating in the run-up to presidential elections while trimming the 2009 budget to decrease the deficit. Tymoshenko has announced that BYuT would not support any pension reform legislation that included raising the retirement age. BYuT MP Mikhaylo Volynets told us that Tymoshenko was worried that any increase in the retirement age would be "political death" for BYuT and her presidential aspirations.

Comment

¶10. (C) Tymoshenko delivered her votes on legislation required by IMF. Yushchenko failed to deliver, after numerous pledges to support the measures. While his allies in the Rada are dwindling, their votes would have been sufficient to gain a majority in favor of the measures. While the legislation can be resubmitted to the agenda at any time, the vote represented a failed opportunity for Ukraine's political leadership to work together to meet IMF

requirements, and will invariably delay the IMF mission  
team's return.  
TAYLOR